

AR35



GLEN LAKE SILVER MINES LIMITED

*fourth annual report
1966*

Glen Lake Silver Mines Limited

ANNUAL GENERAL MEETING

Friday, December 9, 1966, 11.00 a.m.

Suite 503, 365 Bay Street,

Toronto, Ontario.

J. J. McPhee
AR35

FROM:

Glen Lake Silver Mines
Limited,
100 Adelaide St.W.,
Toronto - Ontario.

FOR: IMMEDIATE RELEASE

July 2, 1964

Glen Lake Silver Mines in a recent report to shareholders, announced important new developments both at the Cobalt Silver properties and on the 136 claim base metal prospect in Mortimer Township, in the Timmins area of Northern Ontario.

The underground drive from the 90 ft. level to the silver zones indicated by diamond drilling on the Cleopatra claim of Hiho Silver Mines Limited has entered the first of these zones. The drive crosses the zone at a flat angle showing a network of narrow high grade veins with leaf and ruby silver throughout the wall rocks and thin plate silver in flat seams. The drive has angled through this structure for 101 feet giving a true indicated width of 26 feet. Muck samples to date from 401 cars of ore have averaged 63.60 ounces of silver per ton uncut. In routine procedure at the mine, all samples over 50 ounces are cut to 50 ounces bringing the cut average to 37.76 ounces silver per ton. The drive is now going in a north-westerly direction at right angles to the veins and is being pushed out to intersect the second and third zones indicated by diamond drilling.

What appears to be another brand new zone has just been intersected by diamond drilling north from the 145 ft. level, due north from the University shaft. This section assayed 87.7 ounces silver per ton over 6 inches. Drilling is continuing here.

The Turam electromagnetic survey conducted on the 136 claim Mortimer Township property is now completed and has revealed the presence of several electromagnetic conductors, some of which look very important indeed. These conductors lie off the flanks of magnetic anomalies caused by the presence of basic intrusive rocks. These conditions are favorable for the occurrence of base metals such as copper, zinc, nickel etc. The rocks in the area generally are similar to those in which the huge copper-zinc-silver deposit discovered by Texas Gulf Sulphur occurs.

The results of the Turam survey are considered to be very important and claim holdings have been increased by an extra 120 claims along the south-easterly strike. International Nickel have acquired several groups of claims along this same belt.

A contract has been let for a minimum of 5000 feet of diamond drilling to test the anomalies and drilling should get started early next week.

Production at the parent mine continues at a high rate. In the 22 months since commencing production to May 31, 1962, a total of 1,980,049 ounces of silver have been produced from milling of 53,540 tons of ore. Average mill heads were 36.98 ounces silver per ton and recovery was 97.3%.

MONTREAL
DEC 11 1946

GLEN LAKE SILVER MINES LIMITED

Directors
B. NIXON APPLE, Q.C., *Toronto, Ontario*
W. PARK ARMSTRONG, *Princeton, New Jersey*
FRANK CADESKY, *Toronto, Ontario*
A. J. FORTENS, *Toronto, Ontario*
FORREST McCLOONEY, *Kansas City, Missouri*

Officers
FRANK CADESKY, *President*
A. J. FORTENS, *Vice-President*
B. NIXON APPLE, Q.C., *Secretary-Treasurer*

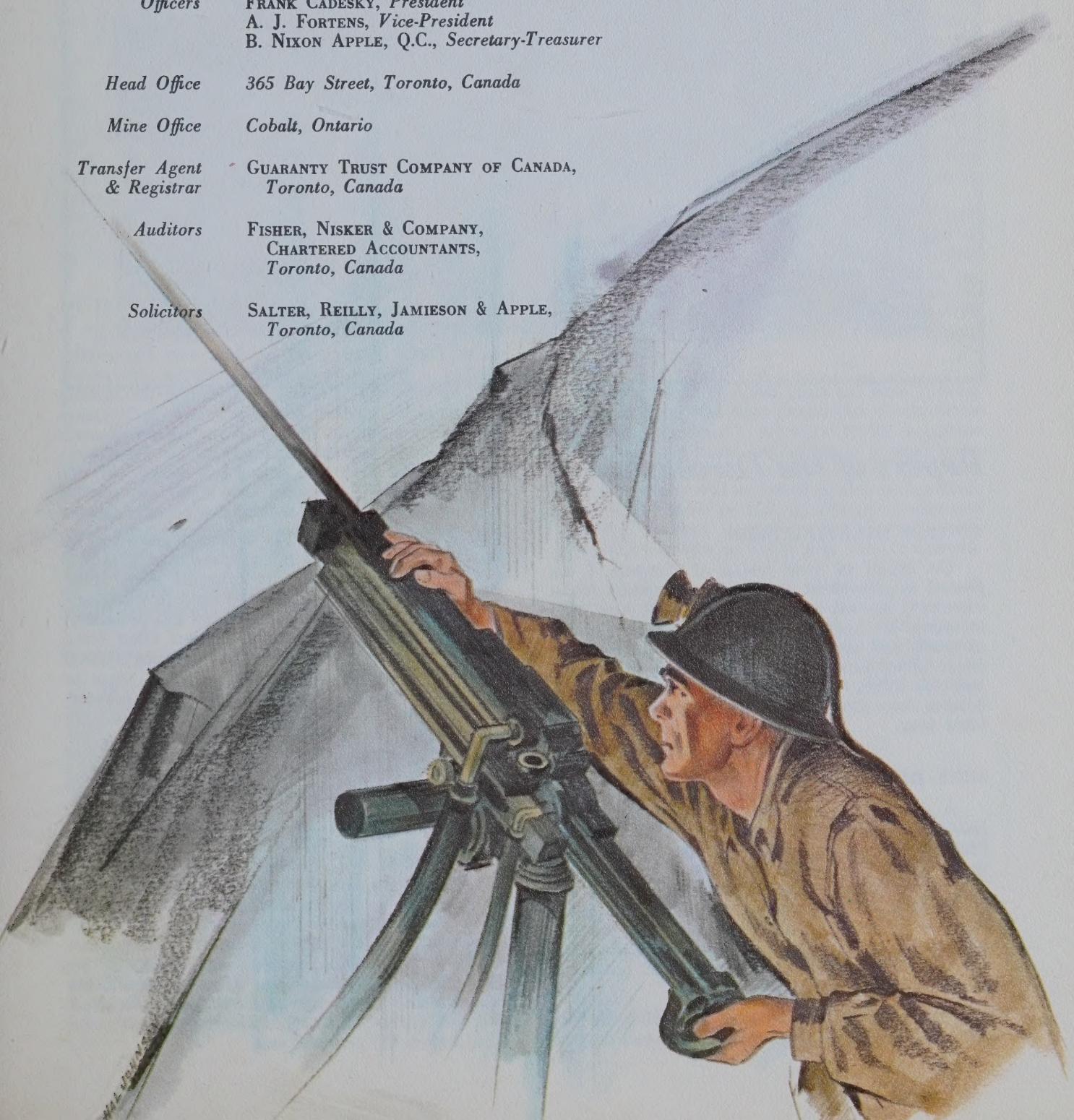
Head Office 365 Bay Street, *Toronto, Canada*

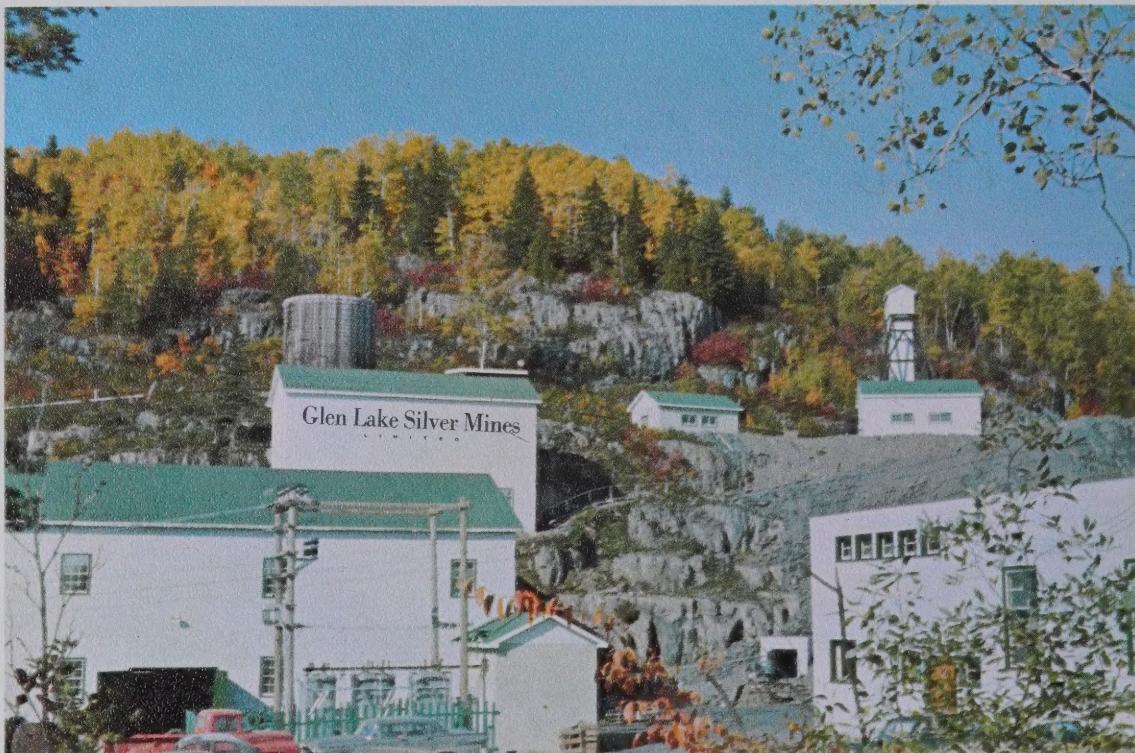
Mine Office Cobalt, *Ontario*

Transfer Agent & Registrar GUARANTY TRUST COMPANY OF CANADA,
Toronto, Canada

Auditors FISHER, NISKER & COMPANY,
CHARTERED ACCOUNTANTS,
Toronto, Canada

Solicitors SALTER, REILLY, JAMIESON & APPLE,
Toronto, Canada





Report of the Directors

TO OUR SHAREHOLDERS:

On behalf of your board of directors I am pleased to present to you our fourth annual report containing audited consolidated financial statements reflecting the financial status and operations of the company and its wholly owned subsidiary, Hiho Silver Mines Limited, during the fiscal year ended July 31, 1966. As in the past, the consolidated balance sheet shows comparable figures for the prior fiscal year.

MINE DEVELOPMENT:

A report from our mine manager, Mr. M. C. Halstead, follows this report of your directors. Production from both mines for the year totalled some 1,354,685 ounces of silver. While about 75% of the silver produced was obtained from ore drawn from the Hiho mine from which mill heads were, on the average, 34.57 ounces of silver per ton, mill heads of ore drawn from the Glen Lake mine ran at a most impressive average of 70.53 ounces of silver to the ton during the year.

The results of ore development during the last fiscal year and down to the present time can only be

described as excellent. As indicated elsewhere in this report, your board is convinced that it is just a matter of time until the price of silver must advance. With this thought in mind, a continued enlargement of our property holdings has proceeded with the result that from the original Glen Lake mine covering 58 acres, we now through acquisitions, leases and options, own or control 1,132 acres in the Cobalt camp. Not only does this expanded acreage increase our potential for future ore development, but even more important, when the price of silver increases what are now considered marginal grade ores will become economic deposits warranting profitable exploitation.

EARNINGS:

Operating profits for our last year amounted to \$738,149 as compared with \$704,793 for the prior year. Outside exploration was \$114,035 compared with \$118,669. Our net profit for the year was \$347,464 compared with \$366,720 for 1965, the slight decrease being primarily attributable to increased accounting write-offs for depreciation and amortization of \$285,812, compared with \$247,816 in the previous year.

TAXATION:

You will have noted that no provision has been made in our financial statements for Federal income taxes. Glen Lake ended its three year tax free holiday July 31, 1965, but to date, and at least for the next year, should not incur liability for taxation due to the availability of write-offs. As indicated in Note 7 to our consolidated financial statements, Hiho Silver commenced commercial production August 1, 1964, and application has been made for the customary three years' tax free period ending July 31, 1967. As stated in our last annual report, the taxation authorities had indicated that they were not then prepared to grant such an exemption and no further communication has been received from them to date. Should an assessment be rendered, our auditors have estimated that tax liability for the two year period ending July 31, 1966, could be some \$179,000; however, our legal counsel have advised that in their opinion Hiho Silver is entitled to the three year tax exemption and they have further confirmed to us of recent date that certain recent judicial decisions have supported their opinion. Should an adverse ruling be made by the taxing authorities an immediate appeal would be taken by your company to the courts.

OUTSIDE EXPLORATION:

It is your directors' belief that a mining company, particularly one such as Glen Lake which is in production, should endeavour to budget a certain portion of earnings for outside exploration. In conjunction with the Hecla Mining Company of Canada we undertook a joint exploration program on a block of 200 claims in the Pine Point area of the Northwest Territories, the cost being shared equally by Hecla and ourselves. Following line cutting, induced polarization surveys were carried out over the claims and an anomaly indicated by this geophysical surveying was outlined and tested by diamond drilling. Unfortunately, no mineralization of economic significance was encountered and accordingly development work has been discontinued.

DIVIDENDS:

As shareholders are aware, our last dividend payment was made December 31, 1965, and in the 1965 annual report your directors stated that a careful re-appraisal of our dividend policy was essential. Shareholders were so advised for several reasons: the capacity of our mill at Cobalt had been increased in the summer of 1965 and the entire cost of this program had been financed out of earnings without the necessity of borrowing through the issuance of funded obligations; we were about to embark on an extensive exploration program in the Pine Point area with Hecla; and the status of Hiho Silver's tax exemption was in doubt. In view of these considerations it was felt that it would be prudent to conserve our funds during 1966 with the objective of reviewing our position from the point of view of mine development and profits earned following the close of our fiscal year ending July 31, 1966.

As soon as the audited financial statements were available covering operations for the past year, your directors met and after a careful assessment of the status of your company, it was decided that the payment of dividends should be recommenced. Accordingly, a dividend of 2½¢ per share was declared payable December 15, 1966, to shareholders of record at the close of business November 24, 1966.

Just prior to the issuance of this report the five millionth ounce of silver was produced from our Cobalt mines. This occasion was marked by a dinner for our mine staff, employees and their families and in attendance was the Honourable George C. Wardrobe, Minister of Mines for the Province of Ontario. It was particularly fitting to have had the dinner at this time as it gave your directors a splendid opportunity to express our most sincere thanks and appreciation to our staff and employees whose loyalty and co-operation have contributed so greatly to our success, not only during the past year but from the inception of operations.

We look to the ensuing fiscal year and future with considerable confidence not only in the light of our property developments but particularly concerning the future pricing of silver. Financial circles are almost unanimous in their opinion that a rise in the price of silver will necessarily be occasioned by the prolonged and continuing imbalance between supply and demand.

World demand in recent years has been growing at a much faster rate than production of new silver and the large holdings of the metal by the American government have been diminishing at a rapid pace. It is widely believed that at some time in the future, the U.S. Treasury will be forced to stop selling silver at the pegged price of U.S. \$1.293 per ounce and when this happens the price of silver will move upwards in response to world wide market demand.

Enclosed you will find a notice of our annual general meeting of stockholders to be held December 9th, 1966. An instrument of proxy accompanies the notice and if you are unable to be personally present, you are requested to sign and return the proxy to ensure your representation at the meeting.

Respectfully submitted,

On behalf of the board,

Frank Cadesky

FRANK CADESKY,
President.

Toronto, Ontario,
November 14, 1966.

GLEN LAKE SILVER MINES LIMITED

General Manager's Report

The President & Directors,
Glen Lake Silver Mines Limited,
Suite 503 — 365 Bay Street,
Toronto 1, Ontario.

Gentlemen:

I am pleased to submit the following report on Glen Lake Silver Mines Limited and its wholly-owned subsidiary Hiho Silver Mines Limited covering the period August 1, 1965 to July 31, 1966:

Production is shown for both Glen Lake Silver Mine and Hiho Silver Mine. Following are the production figures for the 12 months of the fiscal year and total to date:

GLEN LAKE-BAILEY MINE August 1/65-July 31/66

Tons Milled	4,010
Tails	6,657 oz. Ag
Average Mill Heads	70.53 oz. Ag per ton
Recovery	97.64%

Production:

September	46,084.81
October	8,986.12
December	35,519.00
January	8,420.26
June	75,125.00
July	102,069.56

Aug. 1/65-July 31/66 276,204.75 oz. Ag
Total Production Aug. 1/62-To Date: 2,746,182.82 oz. Ag

HIHO-GLEN LAKE SUBSIDIARY August 1/65-July 31/66

Tons Milled	32,085
Tails	30,873 oz. Ag
Average Mill Heads	34.57 oz. Ag Per Ton
Recovery	97.21%

Production:

August (1/2 mon.)	63,832.24
September	68,979.00
October	118,751.15
November	103,749.19
December	71,513.64
January	102,032.84
February	104,912.73
March	125,950.43
April	103,460.66
May	100,780.00
June	54,299.00
July	60,219.79

Aug. 1/65-July 31/66 1,078,480.67 oz. Ag
Total Production Aug. 1/64-To Date: 1,927,335.25 oz. Ag

PRODUCTION FROM BOTH MINES

August 1/65-July 31/66	1,354,685.42
Prior to August 1/65	3,318,833.00
Total Production Both Mines	4,673,518.42 oz. Ag
Production Both Mines-Month of July 1966-162,289.35 oz. Ag	

DEVELOPMENT WORK AUGUST 1, 1965 TO JULY 31, 1966 AND TOTAL TO DATE

During the fiscal year development work was carried on at the Glen Lake Bailey Mine. The Hiho Cleopatra Mine and the Hiho Giroux Lake Mine which is operated through the University No. 3 Shaft. The development work will be shown separately for each property and is as follows:

TOTAL ADVANCE FOR THE FISCAL YEAR AND TO DATE GLEN LAKE-BAILEY MINE

	Previous to Aug. 1/65	Aug. 1/65- July 31/66	To Date
Cross Cutting	3,174'	467'	3,641'
Drifting	3,004'	362'	3,366'
Raising	1,295'	420'	1,715'
Sinking No. 1 Winze	68'	102'	170'
Diamond Drilling:			
Surface	10,067'	4,339'	14,406'
Underground	47,281'	10,429'	57,710'

Diamond drilling located the silver ore in the Keewatin basement rock below the diabase and sediments. Development work from the winze area opened up this ore and to date 276,207 oz. of silver as reported has been recovered and further ore is being broken daily.

HIHO-CLEOPATRA

	Previous to Aug. 1/65	Aug. 1/65- July 31/66	To Date
Cross Cutting	1,734'	436'	2,170'
Drifting	1,874'	1,130'	3,004'
Raising	14'	281'	295'
Main Shaft Sinking	210'	—	210'
Diamond Drilling:			
Surface	3,572'	230'	3,802'
Underground	22,507'	16,920'	39,427'

HIHO-UNIVERSITY

Drifting	295'	295'
Shaft Sinking No. 3	153'	153'
Cross Cutting	789'	789'
Diamond Drilling:		
Surface	512'	512'
Underground	3,761'	5,129'

	Previous to Aug. 1/65	Aug. 1/65- July 31/66	To Date
HIHO-A 48 & A 50 PROPERTIES			
Surface DD	504'	1,336'	1,840'
Underground DD	—	—	—
HIHO-SILVER HILL PROPERTY			
Surface DD	—	1,475'	1,475'
Underground DD	—	—	—
HIHO-GIROUX LAKE PROPERTY			
Cross Cutting		352'	352'
Drifting		602'	602'
Raising		219'	219'
Surface DD	4,401'	2,951'	7,352'
Underground DD	3,512'	9,562'	13,074'
HIHO-KERR LAKE PROPERTY			
Surface DD	5,415'	—	5,415'
HIHO-PENN CANADIAN PROPERTY			
Surface DD	4,268'	—	4,268'
Underground DD	1,788'	—	1,788'
HIHO-NU SILCO			
Surface DD	2,568'	1,481'	4,049'
Total Diamond Drilling on Glen Lake Silver Mines Limited and all adjoining subsidiary properties to date:			
Surface		43,119'	
Underground		120,889'	
Total		164,008'	
Total Cross Cutting To Date		6,952'	
Total Drifting To Date		7,267'	
Total Raising To Date		2,229'	

Diamond drilling in the Hiho Cleopatra Mine shows the downward extension of the various veins to be carrying silver values. Three intersections below the A17 or Patricia vein showed highgrade silver veins. A new cross-cut is to be driven from the 233 foot level of the shaft which is 50 feet below the second or 183 foot level. The various veins will be developed at this new depth.

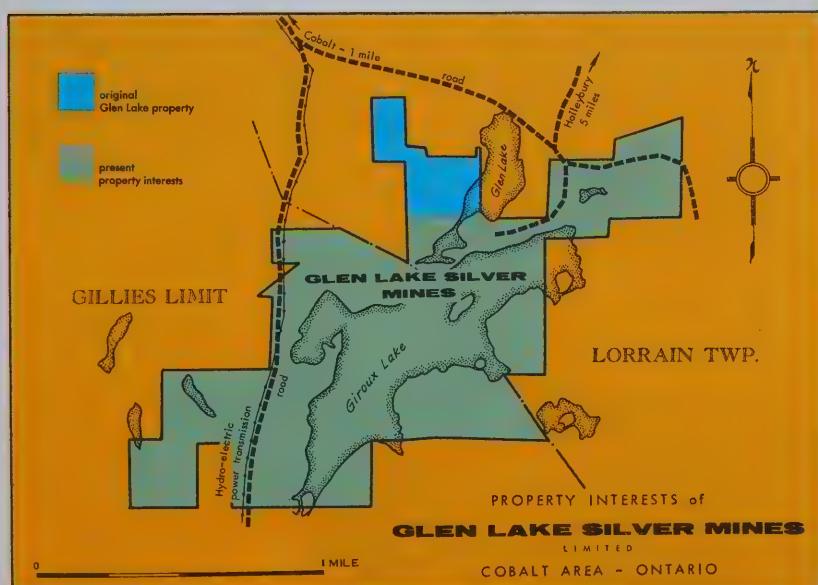
Stoping preparation at the Hiho Giroux Lake Mine is continuing along the 457 feet of ore found on the 291 foot level below Giroux Lake. The vein shows native silver and an excellent grade of ore.

Working conditions at the Mine remain good. An auxiliary outlet from the Mine to Dynamite Island in the middle of Giroux Lake is in progress.

Respectfully submitted,

M. C. HALSTEAD, B.Sc., P.Eng.,
General Manager.

August 31, 1966.



Map showing
original Glen Lake property
and present property interests.

GLEN LAKE SILVER

(Incorporated under the Laws of the Province of Ontario)
AND ITS WHOLLY-OWNED SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at June 30, 1966
with comparative figures

ASSETS

CURRENT ASSETS

	1966	1965
Cash	\$ 35,453	\$ 59,566
Bank trust account for payment of charges under shaft sinking contract	—	30,000
Smelter settlements outstanding	378,806	159,720
Concentrates on hand and in transit, at estimated net realizable value	102,399	139,997
Receivable from affiliated companies	51,314	60,585
Other receivables	14,713	11,857
	<hr/> <u>\$ 582,685</u>	<hr/> <u>\$ 461,725</u>

FIXED ASSETS

	1966	1965
Building, machinery and equipment, at cost	\$ 596,254	\$ 526,255
Less — accumulated depreciation (Note 5)	364,132	258,721
	<hr/> <u>\$ 232,122</u>	<hr/> <u>\$ 267,534</u>
Mining leases (Note 2)	35,002	2
Mining claims (Note 3)	135,896	136,129
Mining claims held under option to purchase (Note 4)	70,000	—
	<hr/> <u>\$ 473,020</u>	<hr/> <u>\$ 403,665</u>

DEFERRED EXPENDITURES AND OTHER ASSETS

	1966	1965
Development and preproduction expenditures	\$ 427,344	\$ 427,344
Shaft sinking and related costs	226,855	116,210
	<hr/> <u>\$ 654,199</u>	<hr/> <u>\$ 543,554</u>
Less — accumulated amortization (Note 5)	438,550	260,070
	<hr/> <u>\$ 215,649</u>	<hr/> <u>\$ 283,484</u>
Receivable from affiliated companies	11,973	22,737
Mine supplies, at cost	40,991	48,159
Prepaid expenses	10,254	13,396
Special refundable tax	5,350	—
Refundable deposits	8,856	8,856
	<hr/> <u>\$ 293,073</u>	<hr/> <u>\$ 376,632</u>
	<hr/> <u>\$1,348,778</u>	<hr/> <u>\$1,242,022</u>



MINES LIMITED

The Province of Ontario)

HIHO SILVER MINES LIMITED

BALANCE SHEET

1966

res for 1965

LIABILITIES

CURRENT LIABILITIES

	1966	1965
Wages and employees' deductions payable	\$ 7,870	\$ 18,084
Royalties payable	22,306	80,764
Accounts payable	85,827	66,750
Accounts payable re purchase of equipment — secured	25,456	56,564
Estimated liability for Ontario mining taxes	24,592	29,393
Payable to affiliated companies	11,786	10,634
Dividends payable	—	154,500
	<u>\$ 177,837</u>	<u>\$ 416,689</u>

CAPITAL AND SURPLUS

CAPITAL STOCK (Note 6)

Authorized:

5,000,000 shares, par value \$1.00 each

Issued and fully paid:

3,100,005 shares	\$3,100,005	\$3,100,005
Less — discount thereon	2,330,000	2,330,000
	<u>\$ 770,005</u>	<u>\$ 770,005</u>
EARNED SURPLUS, per statement	400,936	55,328
	<u>\$1,170,941</u>	<u>\$ 825,333</u>

Approved on behalf of the Board of Directors:

FRANK CADESKY, Director.

A. J. FORTENS, Director.

<u>\$1,348,778</u>	<u>\$1,242,022</u>
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The accompanying notes are an integral part of the consolidated financial statements.

Auditors' Report

To the Shareholders of
Glen Lake Silver Mines Limited.

We have examined the consolidated balance sheet of Glen Lake Silver Mines Limited and its wholly-owned subsidiary, Hiho Silver Mines Limited, as at July 31, 1966 and the consolidated statements of operations and earned surplus for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, subject to the determination of the income tax status of the company's subsidiary to which reference is made in Note 7, the accompanying consolidated balance sheet and consolidated statements of operations and earned surplus present fairly the financial position of the companies as at July 31, 1966 and the results of their operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario,
September 23, 1966.

FISHER, NISKER & COMPANY,
Chartered Accountants.

GLEN LAKE SILVER MINES LIMITED

AND ITS WHOLLY-OWNED SUBSIDIARY, HIHO SILVER MINES LIMITED

Consolidated Statement of Operations

FOR THE YEAR ENDED JULY 31, 1966

(With comparative figures for the year ended July 31, 1965)

(Note 1)

	1966	1965
REVENUE		
Production of concentrates, flotations and metallics	\$ 1,878,010	\$ 1,676,613
Less — smelter and other marketing costs	\$ 186,161	\$ 137,173
royalties	35,212	48,994
	<u>\$ 221,373</u>	<u>\$ 186,167</u>
	<u><u>\$ 1,656,637</u></u>	<u><u>\$ 1,490,446</u></u>
OPERATING EXPENSES		
Mine development	\$ 341,025	\$ 301,064
Mining	206,030	125,471
Milling	125,061	112,983
General and office expenses at the property	78,157	79,310
General and administrative expenses	137,395	137,410
Ontario mining taxes — estimated	30,820	29,415
	<u>\$ 918,488</u>	<u>\$ 785,653</u>
OPERATING PROFIT BEFORE DEPRECIATION AND AMORTIZATION	\$ 738,149	\$ 704,793
Deduct — depreciation of buildings, machinery and equipment	\$ 107,331	\$ 105,637
— amortization of preproduction expenditures and shaft sinking costs	178,481	142,179
	<u>\$ 285,812</u>	<u>\$ 247,816</u>
OPERATING PROFIT	\$ 452,337	\$ 456,977
Add — sundry revenue	\$ 9,002	\$ 7,250
— profit on disposal of machinery and equipment	160	—
— profit from sale of investments	—	21,162
	<u>\$ 9,162</u>	<u>\$ 28,412</u>
	<u><u>\$ 461,499</u></u>	<u><u>\$ 485,389</u></u>
Deduct — outside exploration expenditures	\$ 114,035	\$ 117,969
— loss on disposal of machinery and equipment	—	700
	<u>\$ 114,035</u>	<u>\$ 118,669</u>
NET PROFIT FOR THE YEAR (Note 7)	<u><u>\$ 347,464</u></u>	<u><u>\$ 366,720</u></u>

GLEN LAKE SILVER MINES LIMITED

AND ITS WHOLLY-OWNED SUBSIDIARY, HIHO SILVER MINES LIMITED

Consolidated Statement of Earned Surplus

FOR THE YEAR ENDED JULY 31, 1966

(With comparative figures for the year ended July 31, 1965)

	1966	1965
BALANCE AT BEGINNING OF YEAR	\$ 55,328	\$ 510,300
Add — net profit for the year	347,464	366,720
	<u>\$ 402,792</u>	<u>\$ 877,020</u>
Deduct — dividends paid or declared	\$ —	\$ 618,001
— mining claims abandoned (acquired by subsidiary for 1,999,997 shares of its capital stock)	—	200,000
— mining claims abandoned (acquired for cash)	233	—
— write-off of incorporation and organization expenses	—	3,691
— adjustment of 1965 mining taxes	1,623	—
	<u>\$ 1,856</u>	<u>\$ 821,692</u>
BALANCE AT END OF YEAR	<u><u>\$ 400,936</u></u>	<u><u>\$ 55,328</u></u>



GLEN LAKE SILVER MINES LIMITED

AND ITS WHOLLY-OWNED SUBSIDIARY, HIHO SILVER MINES LIMITED

Notes to Consolidated Financial Statements

JULY 31, 1966

NOTE 1 — Consolidated balance sheet

The consolidated balance sheet includes the accounts of Glen Lake Silver Mines Limited and its wholly-owned subsidiary company, Hiho Silver Mines Limited. This subsidiary company commenced regular production of silver concentrates in reasonable commercial quantities on August 1, 1964 and its operating income and expenses from that date are included in the consolidated statement of operations.

NOTE 2 — Mining leases

The mining leases held by the companies as at July 31, 1966 are as follows:

(1) A lease on two parcels of mining lands, known as the "Bailey Property" in the District of Temiskaming, Ontario (held by Glen Lake)	\$ 1.00
(2) A lease on certain contiguous parcels of land in the District of Temiskaming, Ontario (held by Hiho Silver)	1.00
(3) A lease on a parcel of land in the District of Temiskaming (held by Hiho Silver)	35,000.00
	<u>\$35,002.00</u>

The lease shown under (1) above (which is the Glen Lake's producing property) was acquired by an agreement dated February 1, 1961. This lease is for a period of ten years from the date of agreement, subject to the right of renewal. The lease provides for a royalty of 10% of net smelter returns received from ores removed from the mining lands and sold. For accounting purposes this lease is recorded at a nominal value of \$1.00.

The lease shown under (2) above was acquired by agreement dated May 9, 1963. The lease is for a period of five years, renewable for further five-year terms and provides for an annual rental of \$6,000.00 and a royalty of 10% of the net smelter returns on all ore shipped from the property. Annual rentals can be applied to reduce the royalty payments. The company has an option to purchase the mining lands covered by the lease for \$75,000.00. All rents and royalties paid to the lessor during the lease period may be applied on account of the purchase price. The company may terminate this lease at any time upon giving the lessor one month's written notice.

For accounting purposes this lease is recorded at a nominal value of \$1.00.

The lease shown under (3) above was acquired on August 31, 1965. The lease expires on October 1, 1968 and can be renewed for an additional ten years.

NOTE 3 — Mining claims

The following is a summary of the mining claims held by the companies as at July 31, 1966:

Certain contiguous parcels of land in the District of Temiskaming, Ontario (includes the producing property) acquired by Hiho Silver for cash	\$130,000.00*
50% interest in unpatented mining claims in the Larder Lake Mining Division, Ontario, acquired by Glen Lake for cash	5,896.33
	<u>\$135,896.33</u>

* No provision for depletion of the cost of the company's producing property is made, which is consistent with Canadian accounting practice.

NOTE 4 — Mining claims held under option to purchase

50% interest in unpatented mining claims in the Pine Point area, Northwest Territories, acquired by Hiho Silver for cash (see (1) below)	\$ 50,000.00
9 mining leases and 7 patented mining claims in the District of Temiskaming, Ontario, acquired by Hiho Silver for cash (see (2) below)	20,000.00
	<u>\$ 70,000.00</u>

(1) By agreement dated December 7, 1965, Hiho Silver Mines Limited acquired an option to purchase 200 mineral claims in the Pine Point area, Northwest Territories. By agreement dated March 29, 1966, the company assigned a 50% interest in this option agreement to Hecla Mining Company of Canada Limited (hereinafter referred to as Hecla).

To July 31, 1966, the company and Hecla have each paid \$50,000.00, which was the consideration to acquire the option. To exercise the option to purchase, the optionor is to receive an additional \$200,000.00 — \$100,000.00 on or before December 7, 1966 and \$100,000.00 on or before December 7, 1967.

The agreement of December 7, 1965 further provides for the ultimate transfer of the claims either to a company to be incorporated, in which case the optionor will receive 375,000 shares of the new company, or to Glen Lake Silver Mines Limited in which case the optionor will receive 200,000 shares of Glen Lake.

The agreement of March 29, 1966 provides for certain exploration work to be performed on the optioned claims (not less than two years assessment work).

The company and Hecla are to share all costs and expenditures, including the aforementioned option payment of \$200,000.00, 50-50, but each company may elect to withdraw from the agreement after giving proper notice as defined in the agreement.

Should the option agreement be fully exercised by both companies, Hiho Silver and Hecla have agreed to incorporate a new company under the laws of the Province of Ontario with an authorized capital of 5,000,000 shares which company will acquire the optioned claims for 750,000 shares of its capital stock. The optionor will receive 375,000 shares and Hiho Silver and Hecla will each receive 187,500 shares.

There are further provisions for the new company to issue additional shares to Hiho Silver and Hecla for exploration and development expenditures incurred by them.

- (2) By an agreement dated June 10, 1966, Hiho Silver Mines Limited acquired a working option for a term of one year on certain mining claims in the District of Temiskaming, Ontario, for \$20,000.00. The option may be extended for two more years on payment of \$10,000.00 per year. Hiho Silver may, after it has expended a minimum of \$150,000.00 on the property, purchase the said claims for the sum of \$400,000.00 to be paid \$100,000.00 annually for four years or incorporate a new company to acquire the claims, in which case the optionor will receive a 25% interest in the new company and Hiho will receive 75%.

Hiho can terminate the agreement on thirty days notice.

NOTE 5 — Depreciation and amortization

Depreciation of buildings, machinery and equipment and amortization of preproduction expenses and shaft sinking costs are provided to write off these costs over the estimated life of the producing properties.

NOTE 6 — Donated shares

Of the 900,000 shares of capital stock of Glen Lake Silver Mines Limited issued for mining claims, 10,000 shares were donated back to Glen Lake by the vendors. These shares are held in escrow and are registered in the name of the Guaranty Trust Company of Canada as trustee to be dealt with only on the written direction of the company and the Ontario Securities Commission.

NOTE 7 — Income taxes

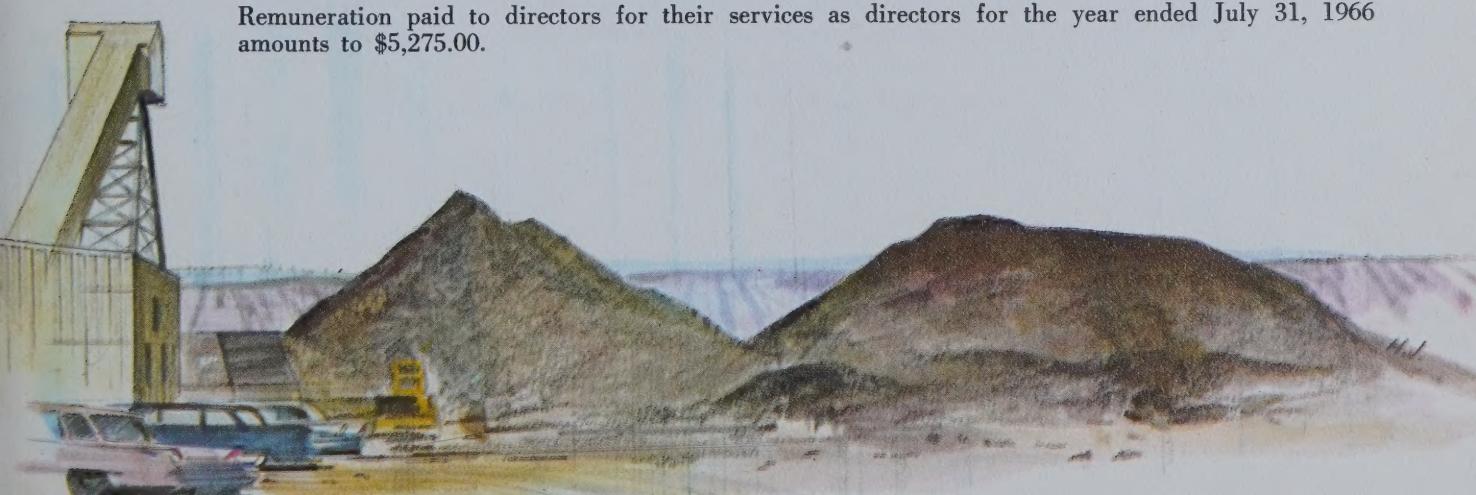
Glen Lake Silver Mines Limited was exempt from income taxes for the three-year period ended July 31, 1965. No provision for income taxes has been made for the year ended July 31, 1966 on Glen Lake's operations because development, preproduction and shaft sinking expenses are available to offset profits.

Hiho Silver Mines Limited has made application to the Department of National Revenue for a three-year tax exemption period to commence August 1, 1964. The department has indicated it is not presently prepared to grant such exemption. Counsel for the company has advised that in their opinion the subsidiary company should be entitled to the exemption. The subsidiary company accordingly proposes to dispute and contest any assessment for income taxes which may arise from revenue earned during its first three-year period of operations.

Under the circumstances, no provision for income taxes has been made in these financial statements. Should the Department of National Revenue assess Hiho Silver Mines Limited on profits arising from its mining operations, and if such assessment is upheld, income taxes on its operations from inception (August 1, 1964) to July 31, 1966 could amount to approximately \$179,000.00.

NOTE 8 — Directors' remuneration

Remuneration paid to directors for their services as directors for the year ended July 31, 1966 amounts to \$5,275.00.





M. C. Halstead, general manager,
examining Cadesky vein at Hiho-Cleopatra mine.



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